

FINAL TRANSCRIPT

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HRL - Q4 2010 Hormel Foods Corporation Earnings Conference Call

Event Date/Time: Nov. 23. 2010 / 2:00PM GMT



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CORPORATE PARTICIPANTS

Kevin Jones

Hormel Foods Corporation - Director, IR

Jeff Ettinger

Hormel Foods Corporation - Chairman, President, CEO

Jody Feragen

Hormel Foods Corporation - EVP, CFO

CONFERENCE CALL PARTICIPANTS

Operator

Akshay Jagdale

KeyBanc Capital Markets - Analyst

Ken Zaslow

BMO Capital Markets - Analyst

Christina McGlone

Deutsche Bank - Analyst

Farha Aslam

Stephens Inc. - Analyst

Diane Geissler

CLSA Limited - Analyst

Tim Ramey

D.A. Davidson & Co. - Analyst

Will Sawyer

Credit Suisse - Analyst

Lindsay Drucker-Mann

Goldman Sachs - Analyst

Todd Duvick

BofA Merrill Lynch - Analyst

Eric Larson

Soleil Securities - Analyst

Ann Gurkin

Davenport & Company - Analyst

Mike Hamilton

RBC Capital Markets - Analyst

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Hormel Foods fourth quarter earnings conference call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be open for questions. (Operator Instructions)

This conference is being recorded today, Tuesday, November 23, 2010. I would now like to turn the conference over to Kevin Jones. Please go ahead, sir.



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Kevin Jones - *Hormel Foods Corporation - Director, IR*

Good morning. Welcome to the Hormel Foods conference call for the fourth quarter of fiscal 2010. We released our results this morning before the market opened around 6.30 a.m. Central time. If you did not receive a copy of the release, you can find it on our website at www.HormelFoods.com under the Investor section. On our call today is Jeff Ettinger, Chairman of the Board, President and Chief Executive Officer; and Jody Feragen, Executive Vice President and Chief Financial Officer.

Jeff will provide a review of the operating results for the quarter and the year. Then Jody will provide a detailed financial results for the quarter. The line will be open for questions following Jody's remarks. I would ask that you please adhere to one question plus one follow-up question. And if you have further questions, you can always go to the back of the queue and likely we will have an opportunity to ask that question as well.

We -- Campbell has a conference call beginning one hour after ours started and so we want to make sure we finish on time. Thank you for your cooperation on that. An audio replay of this call will be available beginning at 10.30 a.m. Central time today, November 23, 2010. The dial-in number is 1-800-406-7325 and the access code is 4384165. It will also be posted to our website and archived for one year.

Before we get started with the results of the quarter, I need to reference the Safe Harbor statement. Some of the comments made today will be forward looking and are made under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed in or implied by the statements we will be making. Among the factors that may affect the operating results of the Company are fluctuations in the cost and availability of raw materials and market conditions for finished products.

Please refer to pages 32 through 38 in the Company's 10-Q for the quarter ended July 25, 2010, for more details. It can be accessed on our website. Now I will turn the call over to Jeff.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President, CEO*

Good morning, everyone. We are pleased to report another excellent quarter. Earnings per share for Q4 increased to \$0.90, up a solid 17% from a year ago. For the full year, our US GAAP earnings per share were \$2.92, up 15% from last year. We did benefit from having 14 weeks in the quarter compared to 13 weeks a year ago.

Our goal for fiscal 2010, coming off a very strong earnings year but on declining sales, was to restore our top line growth. Our sales momentum from the previous two quarters accelerated in the fourth quarter. Total Company sales for the quarter were \$2.1 billion, up a substantial 23% from a year ago. As a result, we exceeded the \$7 billion level in sales for the first time in our Company's history and all five segments contributed to the sales gain. I will now take you through each segment.

Our Grocery Products Group reported a segment profit decrease of 6% and a sales gain of 24% for the fourth quarter. For the year, segment operating profit was down 4% and sales were up 13%. Segment profit during the quarter and for the year was adversely impacted by higher raw material costs and the Q2 charge related to the Valley Fresh plant closing. Notwithstanding this profit decrease, we were pleased to see the solid sales results delivered by the Grocery Products unit and our consumer product sales organization.

Sales were driven higher by Hormel Chili and Hash, Compleats Microwave Meals and strong sales growth across much of our MegaMex foods product portfolio. Last quarter, I said I would provide more clarity around the impact of MegaMex food on the Grocery Products operating margins. Our operating margins for the year was 15%.



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Without MegaMex food sales it would have been 18%. The absence of Carapelli sales also improved operating margins for Grocery Products. Going forward, because Don Miguel sales initially will not be reflected in our segment top line results, the profits on those sales should improve the reported operating margins for Grocery Products.

Our Refrigerated Foods Group delivered an outstanding quarter with operating profit up 22% and sales up 26%. For the full year, segment profit was up 22% and sales increased by 11%. We continued to benefit from the unusually high pork operating margins in Q4 offsetting the margin squeeze on our value-added products due to higher raw material costs.

Our Meat Products Group posted large sales gains across much of their product portfolio, led by sales of Hormel Party Trays and Pepperoni and Natural Choice deli meats. Our Food Service Group also contributed to the strong top line picture led by sales of CAFE H ethnic meats, Natural Choice deli meats and AUSTIN BLUES barbecue products. I continue to be pleased with the job our team has done with the integration of the Country Crock line of side dishes. This acquisition has contributed nicely to our results.

Our Jennie-O Turkey Store segment completed a very strong year with an excellent quarter with segment profits growing 90% and sales up 19% for the quarter. For the full year, segment profit was up 65% and sales increased 7%. Results of Jennie-O were driven by efficiencies throughout their supply chain and in their operations. Jennie-O also benefited from higher commodity turkey meat prices and lower feed costs.

Included in the large Q4 segment profit increase was a much larger than usual hedging gain amounting to an incremental \$7.3 million, about which Jody will provide more explanation. You will recall we chose to roll out an enhanced advertising campaign for the Jennie-O brand during the second half of 2010. We believe the campaign contributed to the double-digit sales growth throughout our value-added businesses at Jennie-O Turkey Store led by retail turkey burgers and tray pack products.

The Specialty Foods unit reported a segment profit decline of 6% on a sales increase of 12% for the quarter. Improved sales of sugar, sugar substitutes, nutritional jars and dysphagia products were unable to offset higher raw material costs impacting our Specialty Products business. Notwithstanding the off quarter from a segment profit standpoint, for the full year segment profit for Specialty Foods was up 18% and sales grew 10% contributing nicely to our overall Company success in 2010.

In our All Other segment, which consists primarily of our Hormel Foods international business, Q4 segment profit was down 3% and sales were up 33%. Higher sales of our Spam family of products were unable to offset higher raw material costs impacting export product margins. For the full year, segment profit was down 5% and sales were up 13%. Looking at fiscal 2011, we should continue to benefit from the solid top line momentum shown in the past three quarters. For example, strong sales of our Hormel party trays and Hormel pepperoni items in our Refrigerated Foods segment will grow our presence in the home occasion and snack categories.

We have many other growth platforms that we believe will help drive our results in fiscal 2011. All told, we expect to achieve sales gains in all five segments in fiscal 2011. We also expect to generate segment profit gains in all five segments in fiscal 2011, though our current expectation is that both Refrigerated Foods and Jennie-O Turkey Store may see much more modest segment profit growth in 2011 after such substantial gains in 2010.

We will start fiscal 2011 with the continued benefit of historically high pork operating margins in our Refrigerated Foods segment but we do not presently expect these historically high margins to continue. On the other hand, we believe that our initiatives with Mexican foods and the addition of Don Miguel will help drive strong results in our Grocery Products segment in 2011.

Headwinds to our outlook for 2011 include continued higher raw material costs, significantly higher grain costs and the absence late in the year of both the extra 53rd week and the hedge gain at Jennie-O Turkey Store. In reaction to the higher raw material costs, we are embarking upon a program of strategic and modest price increases with a number of our products. After taking into account all of these significant factors, we are setting our fiscal 2011 earnings guidance range at \$3.10 to \$3.20 per share.



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At this time, I will turn the call over to Jody Feragen to discuss the financial information relating to the fourth quarter and fiscal 2010.

Jody Feragen - Hormel Foods Corporation - EVP, CFO

Thank you, Jeff. Good morning, everyone. Earnings for the fourth quarter of fiscal 2010 totaled \$121.1 million, or \$0.90 per share, compared to \$103.9 million or \$0.77 per share a year ago. US GAAP earnings for the 12 months of fiscal 2010 totaled \$395.6 million, or \$2.92 per share, compared to \$342.8 million or \$2.53 per share a year ago. Adjusted earnings for the full year totaled \$409 million or \$3.02 per share.

Adjusted earnings exclude one-time charges in the second quarter relating to the closure of the Valley Fresh plant and the tax charges primarily related to the new health care laws. Dollar sales for the fourth quarter totaled \$2.1 billion compared to \$1.7 billion last year, a 23% increase. For the full year, dollar sales were \$7.2 billion, an 11% increase from last year. Volume for the fourth quarter was 1.3 billion pounds, up 14% from fiscal 2009. Year to date, volume was 4.8 billion pounds, up 5% from fiscal 2009.

As Jeff mentioned earlier, we reported an incremental gain of \$7.3 million in our Jennie-O segment relating to our open hedge positions. We enter into futures contracts and swaps to hedge our grain costs. As required by hedge accounting rules, we periodically measure the effectiveness of these instruments. The effective gains and losses are deferred but the ineffective portion becomes a current gain or loss. The recent rapid increase in corn and soybean prices caused the ineffective gain to be much larger than we typically experience.

Selling, general and administrative expenses in the fourth quarter were 8.1% of sales compared to 8.5% last year. Year to date, selling, general and administrative expenses were 8.4% of sales compared to 8.7% last year. We expect selling, general and administrative expenses to be approximately 8.5% of sales for next year. Interest and investment income was \$2.4 million for the fourth quarter compared to \$2.2 million last year. Year to date, interest and investment income was \$4.6 million compared to \$19.6 million last year when favorable market returns on our rabbi trust investments drove our investment income higher.

Interest expense for the quarter was \$7 million compared to \$6.7 million last year. Year to date interest expense was \$26.6 million, down from \$28 million last year. We expect interest expense to be approximately \$20 million to \$23 million for fiscal 2011. Our effective tax rate in the fourth quarter was 34.8% versus 34% in fiscal 2009. The year to date effective tax rate is 36% compared to 34.5% last year. For fiscal 2011, we expect the effective tax rate to be between 35% and 36%.

The basic weighted average number of shares outstanding for the fourth quarter and full year was 133 million shares. The diluted weighted average number of shares outstanding for the fourth quarter and full year was 135 million shares. We repurchased 370,000 shares of common stock during the fourth quarter and we have 4.4 million shares remaining to be purchased from the 5 million share authorization in place.

Depreciation and amortization for the quarter was \$33.5 million compared to \$33.1 million last year. For the full year, depreciation and amortization was \$126 million compared to \$127 million last year. We expect depreciation and amortization to be about \$125 million in fiscal 2011. Our \$350 million bond, due in June of 2011, is classified as a current obligation so we carried no long-term debt at the end of the quarter.

During the quarter, we made a \$50.2 million contribution to our pension plan for a total of \$70.3 million for the year. We invested \$76 million in our MegaMex joint venture in the fourth quarter to facilitate the Don Miguel acquisition. Capital expenditures for the quarter totaled \$26 million, flat with last year. For the full year, capital expenditures totaled \$90 million compared with \$97 million last year.



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For fiscal 2011, we expect CapEx to be approximately \$120 million to \$130 million. At this time, I will turn the call over to the operator for the question-and-answer portion of the call. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) And our first question is from the line of Akshay Jagdale with KeyBanc Capital Markets. Please go ahead.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Good morning. Congratulations on a strong quarter.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President, CEO*

Thank you, Akshay.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

I just wanted to, Jeff, if I may, just talk a little bit about the processing business and Refrigerated Foods and others, always a lot of questions. But it seems like just throughout the industry there has been above average margins in the processing business and even though you have a higher value-added portion you have been benefiting from that. And you are continuing to say that you don't expect this to sustain itself, these higher margins. Can you talk about why that is the case? Why do you expect margins not to be sustainable and maybe even talk about why they are so high today?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President, CEO*

I think our outlook is that we are not counting on it. Just a couple years ago, or not even two full years ago we were in the exact opposite situation and looking at negative cut evens and substantially below average cut evens. I guess those of us have been in the business for awhile we see these things swing, now is it possible we are at some kind of level the new norm?

Yes, that's possible. But we aren't banking on that in our 2011 guidance. Over time, if the processing margins become more moderate and as we take pricing action to catch up with where the pork market has moved, we expect our value-added items to shine through and be the major growth vehicle for Refrigerated Foods.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

So why do you think it could be a new normal, if it is? I mean, can you just -- it's not really clear to all of us, I think, on the -- here where we sit today as to why margins are in fact higher. We see a much tighter supply and demand situation here in the US but why should it be sustained? I'm just trying to get your sense of where we fall on that. I mean, you just mentioned that it could be a new norm. Can you help us understand why that could be the case?



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Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

I said it could be, but I also said if you look at based on what our guidance has been formulated against, we don't think it is. But I would have sat here three or four years ago and been fairly astonished at corn regularly being in the \$5 range, too. Our best guess right now is that this is still a somewhat temporal run-up, that it will eventually moderate back down to a more normal level.

But given that we told you at the last two quarters also and outlasted our expectations that time. I guess I'm just being a little more cautious in terms of being a know-all and see-all in terms of where this market goes. In the long run, again, it just all gets back to, we try to figure out what the likely input costs are going to be and then turn loose our Foodservice and Meat Products groups to sell value-added products against that cost environment.

Akshay Jagdale - KeyBanc Capital Markets - Analyst

Okay. Great. I will get back in the queue. Thanks.

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

Okay, thank you.

Operator

Your next question is from the line of Ken Zaslow with BMO Capital Markets. Please go ahead.

Ken Zaslow - BMO Capital Markets - Analyst

Hey, Good morning, everyone.

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

Hey, Ken.

Ken Zaslow - BMO Capital Markets - Analyst

I guess my question is, can you talk about what changes you've made to SPAM and Compleats to regain some sales momentum? And my follow-up just with that is are there channels that you are outperforming? The retail takeaway doesn't seem as good as what you are putting up. So I assuming it might be in alternative channels, if you could just talk to those two issues that would be great?

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

Okay. SPAM, to me, I really haven't viewed that as a problem any time during the year. We had very strong sales in 2009. It's bounced around a little bit more in 2010. But in the long run, we think it's going to be a nice steady contributor for us and that's what it was during the fourth quarter.

Compleats, we were pleased to see a turnaround in Compleats. One quarter to me doesn't -- I don't take full comfort that, okay, the job is done. I am excited by the new product offering that the Grocery Products marketing team and sales organization is



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bringing to the market which is Kid's Compleats, items that meet the USDA definition for healthy products for children. And so that we hope will stimulate expanded growth during 2011 for those lines.

To your second question, without a doubt, there is a difference from brand to brand as to how much of our business is in our reported channel versus non-reported channels. I don't want to be too specific with it but you did happen to bring up, both the examples you brought up, have higher than normal sales in the unreported channels.

Ken Zaslow - BMO Capital Markets - Analyst

Great. Thank you very much.

Operator

Your next question is from the line of Christina McGlone with Deutsche Bank. Please go ahead.

Christina McGlone - Deutsche Bank - Analyst

Hi, good morning. I guess just on Jennie-O, it was a great quarter and looking into 2011 you talked about higher year-over-year profit growth, though, moderating. I'm just curious, I know sometimes you are reluctant to talk about it and you talk about your typical hedge position, but you talked about the gain in the quarter. I'm wondering what your coverage is like going into fiscal 2011 on grains? And then also it looks like, I guess, because of the strong profitability you are seeing (inaudible) up pretty strongly over the last six weeks. If we are facing higher production and higher grain costs next year if it would be difficult to grow EBIT year-over-year?

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

On a coverage basis, we are still kind of in our normal articulated guidance range that will cover our internal corn and soy needs in the 25% to 75% range. We will acknowledge that we are on the upper side of the 50% rather than the lower side. We did think there was more upside risk heading into 2011 than there was downside opportunity. And so it's up to -- that will help moderate some of the pricing actions that Jennie-O Turkey Store has to take in 2011 but it won't eliminate them all together.

And indeed if we don't get relief in the markets in the long run they will probably have to be right back out there heading into 2012, looking at another step in their pricing, but that's just something they need to do in terms of managing their customer relationships and consumer reaction to that. In terms of the commodity markets, I mean, clearly they are quite high right now. We don't sell a lot of breast meat on the commodity market so that element of the composition is less significant to us. But the high thigh meat markets are certainly beneficial to Jennie-O and we expect that to be a positive for them in 2011.

Christina McGlone - Deutsche Bank - Analyst

Okay. Thank you.

Operator

Thank you. The next question is from the line of Farha Aslam with Stephens Inc. Please go ahead.



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Farha Aslam - *Stephens Inc. - Analyst*

Hi, good morning.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President, CEO*

Hi, Farha.

Farha Aslam - *Stephens Inc. - Analyst*

Congratulations on a great quarter.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President, CEO*

Thank you.

Farha Aslam - *Stephens Inc. - Analyst*

And on MegaMex sales and your whole Mexican initiative, could you share with us kind of what MegaMex sales were, what you expect them to be going forward, and could you give us more color on how Don Miguel will impact margins in that business or benefit margins in that business?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President, CEO*

Sales all told, if you count all the brands that we combined together with Herdez Del Fuerte over a year ago and then you add on Don Miguel we are talking about a business venture that's north of \$300 million. So it's a significant investment for us and piece of our portfolio.

As I tried to articulate earlier in the comments, you aren't going to see all those sales roll through Grocery Products sales because the Don Miguel portion is not going to be going through at least in the first year and we will have to talk with the partner over time as to what the best way is to manage that aspect of the business. That is in part to allow us to get our hands around Don Miguel and in part it's in recognition of the fact that nearly half of Don Miguel sales are in the C-store channel and that's not been our typical forte of our consumer products sales organization.

We may have a hybrid approach or we may have to bolster our skills within the CPS covering C-stores. But that's something we will chat with the current Don Miguel management and with our partner going forward.

Farha Aslam - *Stephens Inc. - Analyst*

And then margins in that business going forward, are they going to be similar to Grocery Products because Don Miguel sales won't be included but profits will be? Just trying to figure out how to model that segment.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President, CEO*

I think for this upcoming year, that will certainly be a plus to Grocery Products and so instead of the 15% we ended up with this year, you will start moving toward that 18% number. But it is not going to fully get you there.



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Farha Aslam - *Stephens Inc. - Analyst*

Okay. And follow-up on that is, you have a significant cash position and no debt. Can you share with us your priorities in cash and how your M&A pipeline is looking?

Jody Feragen - *Hormel Foods Corporation - EVP, CFO*

Hi, Farha, this is Jody. Yes, we do have a significant amount of cash. Certainly our announcement yesterday of a substantial increase to our dividend is to somewhat address that and also to recognize that we did have a very strong year and expect to continue to have a strong year next year.

So returning cash to shareholders, we repurchased shares in the fourth quarter, for the full year to the tune of about \$70 million. That remains to be another opportunity for excess cash. But really it gets down to looking for those M&A opportunities and internal organic investments in our business. That's what's going to grow us then.

There are -- seems to be a lot more deals that get announced in the news. I don't have anything to tell you today. We typically don't speculate about that.

Farha Aslam - *Stephens Inc. - Analyst*

Okay. Thank you.

Operator

Thank you. The next question is from the line of Diane Geissler with CLSA. Please go ahead.

Diane Geissler - *CLSA Limited - Analyst*

Good morning.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President, CEO*

Hi, Diane.

Diane Geissler - *CLSA Limited - Analyst*

Congratulations on your quarter.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President, CEO*

Thank you.



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Diane Geissler - CLSA Limited - Analyst

On the Grocery Products segment, it's a two-part question, since I'm only allowed one question. Part one would be my accretion level on Don Miguel, I worked out to be about \$0.06 or about 100 BPS on the EBIT margin. Could you help me there? Am I in the ballpark?

And the second question on Grocery Products would be you mentioned that because of the raw material inputs you were taking some pricing, could you give us some idea about your expectations, even if you don't want to speak directly to Grocery Products, about how much you think pricing will add on the top line in fiscal 2011?

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

I will take the second question first and Jody is quickly doing some math and maybe, hopefully, help you with your question on accretions. In terms of raw material inputs we are going to take an action on SPAM. We have announced to our sales organization a price increase on that product line that will kick in effective the beginning of the second quarter. On a Company-wide basis, we are really kind of evaluating each portfolio and each area of the business and looking at what consumer behavior has been. What's the competitive set like. I think when we take pricing it's probably going to be in that 3% to 4% range. But we won't be taking it on every item. So you can moderate that number downward somewhat to estimate what the impact of pricing would be on our overall year.

Diane Geissler - CLSA Limited - Analyst

Okay. Perfect.

Jody Feragen - Hormel Foods Corporation - EVP, CFO

Diane, I think you may be including the full impact of Don Miguel in your estimation, and attributing it to Hormel when we have to share that with our partner.

Diane Geissler - CLSA Limited - Analyst

Okay. So I guess maybe my assumptions regarding the margin structure in the business were too aggressive. It's not -- the margin structure would not be similar to the other products within your Grocery Products segment?

Jody Feragen - Hormel Foods Corporation - EVP, CFO

I'm going to let you follow-up with Kevin after the call. See where -- it's hard to model on the fly, if you will.

Diane Geissler - CLSA Limited - Analyst

Okay. Terrific. That's fine.

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

We do need to bear in mind the partner interest however you are calculating it.



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Operator

Thank you. The next question is from the line of Tim Ramey with D.A. Davidson. Please go ahead.

Tim Ramey - D.A. Davidson & Co. - Analyst

Good morning. Add my congratulations, please.

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

Thank you, Tim.

Tim Ramey - D.A. Davidson & Co. - Analyst

A clarification and then a question, how about that? Jody, I think you mentioned lower corn input costs in Jennie-O Turkey Store. Is that referring specifically to the hedging gain or even ex- the hedging gain would you have had favorable inputs there?

Jody Feragen - Hormel Foods Corporation - EVP, CFO

I would say that there are feed costs that are driven by lower grain costs and we look at it including whatever gains are flowing through. But remember there is always that time lag because you are feeding the turkey for the full time of its life still. There are varying levels that go in there. And we really look at it as a total feed cost overall. So that was one of the drivers for them. The \$7.3 million is above and beyond that. That was an unexpected ineffectiveness gain that we had for the quarter.

Tim Ramey - D.A. Davidson & Co. - Analyst

Okay. Jeff, I always think you are a good window into the foodservice world. We haven't really been hearing overly bullish commentary on foodservice, but I'd love to hear what your thoughts are right now?

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

I just came back from the international sales meeting and their group has a good sense of optimism. They understand that it is still a challenging environment out there. But when you focus in on the branded value-added products, they were showing growth in the vast majority of those items through the latter half of the year and have high expectations for those in 2011.

Tim Ramey - D.A. Davidson & Co. - Analyst

Great. Thank you.

Operator

Thank you. And the next question is from the line of Robert Moskow with Credit Suisse. Please go ahead.

Will Sawyer - Credit Suisse - Analyst

Hi, good morning. This is Will Sawyer in for Rob. Congratulations.



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Jody Feragen - Hormel Foods Corporation - EVP, CFO

Thank you.

Will Sawyer - Credit Suisse - Analyst

I just wanted to dig in a little bit more on the Jennie-O business and margins, obviously, you have expanded a lot there and I don't know if your targets are still in the 8% to 10% range, but wanted to get an update there and also what your expectations were for margins in 2011?

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

Well, I think what we tried to get at earlier was the notion that we think they can maintain the level that they were able to achieve during 2010 and expand it a little bit based on sales increases. But that after a couple of pretty solid growth years in a row that we aren't expecting the huge increases that we have seen in the past year. They have driven a lot of efficiencies within their operation and I think they are now in a mode where clearly the top line is going to be important for them in the long run to make sure they keep that momentum.

Will Sawyer - Credit Suisse - Analyst

Okay. If I can just do one follow-up. On your -- as far as acquisitions, obviously, you can't discuss anything specific, but as far as possible leverage targets, can you give us any color on that and what you will be willing to go up to?

Jody Feragen - Hormel Foods Corporation - EVP, CFO

We have talked before that we certainly feel we have a balance sheet that could hold upwards to a billion dollars in debt. And we have \$0.5 billion of cash on our balance sheet and investments at this point. But traditionally in the acquisition arena we've kind of focused on the \$300 million plus or minus. So those are the areas.

Will Sawyer - Credit Suisse - Analyst

Thank you.

Operator

Thank you. The next question is from the line of Lindsay Drucker-Mann with Goldman Sachs. Please go ahead.

Lindsay Drucker-Mann - Goldman Sachs - Analyst

Hi, good morning, everyone.

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

Hi, Lindsay.



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Lindsay Drucker-Mann - *Goldman Sachs - Analyst*

I was just hoping you could help me better understand the composition of your guidance. I know the tax rate helps a little bit. But on the divisional level, maybe just talking through which divisions you expect to be particularly strong, especially if the accretion from Don Miguel is a bit more modest and you are looking for a return to more normal, or at least not necessarily as peak margins, in the pork business?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President, CEO*

Okay. Be happy to do that. My expectation is that all five units will be up during 2011. I think we are looking at modest gains, low- to mid-single-digits for Jennie-O Turkey Store and Refrigerated Foods. I think we are looking at a fairly typical gain from Specialty Foods based on our long-term guidance. So it's normally 10% but they are short a week and that's roughly 2% so high-single-digits for them.

Our expectations for international are solid double-digit growth and they had a very strong set of years for about four or five years in a row and then the last couple years have not been as strong so we are expecting them to get back on track and be able to generate that. And then Grocery, we are expecting a good year out of Grocery. Just, we think they have decent solid momentum in their core portfolio anyways.

And then you add to that the Kid's Compleats, you add to that the momentum we have in MegaMex, you add our portion of the Don Miguel earnings, and then on top of that we do expect to benefit from the move of the Valley Fresh canned chicken production into our Dubuque facility. That was part of the write-down we took in the second quarter but we are now producing. We just started that at the end of the fourth quarter and that will improve our cost picture for our chunk chicken line. All of those things put together should mean that Grocery Products should be able to have a very strong year in 2011.

Lindsay Drucker-Mann - *Goldman Sachs - Analyst*

Great. That's really helpful. Thank you for the detail. And then just as a follow-up, I was hoping you guys -- I know the final rule is probably a little ways out, but maybe just to give us a sense of how the GIPSA changes may affect your business?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President, CEO*

It really will be highly dependent on how those final rules look. I mean, we are certainly in dialogues with the regulators, with our producers. Our producers are writing letters and attending hearings throughout the country that -- we think many of the things in the articulated rules would be counterproductive to our both industry and the economy in general, but we will just have to see where it ends up sorting out and how many of the restrictions really end up applying. We definitely are in the mode of relying upon contract growing in both Jennie-O and in our hog operations and so it's a very important element for us going forward.

Lindsay Drucker-Mann - *Goldman Sachs - Analyst*

Thank you.

Operator

Thank you. The next question is from the line of Todd Duvick with Bank of America Merrill Lynch. Please go ahead.



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Todd Duvick - BofA Merrill Lynch - Analyst

Thank you. Good morning.

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

Good morning.

Todd Duvick - BofA Merrill Lynch - Analyst

I wanted to ask about your \$350 million note that is maturing in June and find out what your plans are. Given your strong balance sheet, you certainly have the ability to pay that off it looks like, but with the attractive rates environment, I'm wondering are planning to refinance that?

Jody Feragen - Hormel Foods Corporation - EVP, CFO

You just kind of -- your question was my answer. That's something certainly we are looking at. Obviously, we don't need the cash and we can [defeat] the note with the cash on hand. But given the current environment we certainly will take a look at the possibility of maybe doing a smaller offering.

Todd Duvick - BofA Merrill Lynch - Analyst

Okay. And then just related to the pension plan, you do have a small underfunded status, at least as of the last year and I assume that may be the case. Are you looking at a potential voluntary offering or a voluntary contribution related to the pension plan in 2011 as well?

Jody Feragen - Hormel Foods Corporation - EVP, CFO

Our typical funding levels would be to fund normal costs on an annual basis. We did make the additional contribution in 2010 to get us to fully funded status. So our plans are in very good shape and we would just look at normal costs which is the \$20 million range.

Todd Duvick - BofA Merrill Lynch - Analyst

Okay. So you are at full-funded status as of the end of the fiscal year?

Jody Feragen - Hormel Foods Corporation - EVP, CFO

Yes.

Todd Duvick - BofA Merrill Lynch - Analyst

Okay. That's helpful. Thank you very much.



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Operator

Thank you. And the next question is from the line of Eric Larson with Soleil Securities. Please go ahead.

Eric Larson - *Soleil Securities - Analyst*

Good morning, everyone. Congratulations.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President, CEO*

Thank you, Eric.

Eric Larson - *Soleil Securities - Analyst*

I'd just like to drill down a little further on the hog cutout margins. Obviously, we have got pretty good demand. We've got reasonably strong exports. The tariffs in Mexico didn't seem to do anything to stem demand. You have good profit margins at the producer level and yet we are seeing very tight supplies. We aren't seeing them expand the herd and obviously there is probably some caution on the feed out costs with meal and corn prices where they are. Can you just summarize maybe more on the supply side, kind of give us an idea of how the producers might be looking at this current environment as to what they might do for either expansion plans or no expansion plans?

Jody Feragen - *Hormel Foods Corporation - EVP, CFO*

Well, let me take a turn at the hog markets here. I am not sure that I agree with your statement that the producers are in good shape. They had some periods of profitability, but with the recent run-up in grains if they are not hedged on that I would sense that they are probably not as profitable. Certainly not at the levels that they were earlier this year.

I would expect that we should see about the same level of production in 2011. I guess it gets back to the demand side of the equation, and then as you had indicated even with some of the negatives with the tariff markets and whatnot in Mexico we still seem to have that strong demand. And that is something that I don't have the answer to.

Eric Larson - *Soleil Securities - Analyst*

So basically everything you said right there, Jody, it sounds like you could have continued relatively strong cutout margins if producers really aren't willing to expand the herds at this point?

Jody Feragen - *Hormel Foods Corporation - EVP, CFO*

I don't sense that we will see large scale expansion given the profitability for the producers at this point. So that's correct. I also don't know what consumers will do when they finally get passed through all the costs that need to go down to the consumer level. And then you also have the competing proteins that would have an impact and if chicken starts to be a better value for the consumer that could have some demand impact.

I wish I could give you a definitive answer. I don't know, and as Jeff indicated in his response, it's something that we are just not counting on but we've said that for a couple of quarters, too.



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Nov. 23. 2010 / 2:00PM, HRL - Q4 2010 Hormel Foods Corporation Earnings Conference Call**Eric Larson** - *Soleil Securities - Analyst*

Sure. That is helpful in flavor. It helps to clarify some of that stuff. Have a good Thanksgiving, everyone.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President, CEO*

Thank you, Eric.

Operator

Thank you. Our next question is from the line of Ann Gurkin with Davenport. Please go ahead.

Ann Gurkin - *Davenport & Company - Analyst*

Good morning, and congratulations, as well, on the great quarter.

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President, CEO*

Thank you.

Ann Gurkin - *Davenport & Company - Analyst*

Just wanted to ask about the consumer -- if you can comment on how you think the health of the consumer is right now and what does Hormel need to do over the next several years to remain relevant or to add value to the consumer perception of Hormel brands?

Jeff Ettinger - *Hormel Foods Corporation - Chairman, President, CEO*

The consumer is -- our reaction from our consumers to our products has been quite strong, but clearly the overall economy is mixed and still has a significant pockets of weakness. Our emphasis is in part on continuing to build the brand. We've had a steady effort against the Hormel brand over the last two to three years and we will continue that into 2011.

We had an extra strong effort against the Jennie-O Turkey Store brand in the second half of 2010 and we will kind of take a little more wait and see approach as to the level of advertising we go after the Jennie-O brand with in 2011. But our initial read on that advertising was we saw some very nice sales increases.

Otherwise, continuing to be innovative with the products is important and that ranges from brand new products such as Kid's Compleats or new versions of party trays, to just kind of simple innovations even within existing franchises like our Hormel Chili franchise, simple things like putting easy-open ends on it and reducing the sodium level of the core product. We had a very strong year with Hormel Chili last year just even with simple innovations like that.

Ann Gurkin - *Davenport & Company - Analyst*

Great. Thank you all.



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Operator

Thank you. The next question is from the line of Mike Hamilton with RBC. Please go ahead.

Mike Hamilton - RBC Capital Markets - Analyst

Good morning, everyone.

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

Hi, Mike.

Jody Feragen - Hormel Foods Corporation - EVP, CFO

Good morning.

Mike Hamilton - RBC Capital Markets - Analyst

Congratulations on the year.

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

Thank you.

Mike Hamilton - RBC Capital Markets - Analyst

Only in America can inactive positions lead to booking a gain. My boss is going to be really impressed with that. Referring to me, of course. If you could, Jeff, take a look back at the year and assess the progress you have made on the value add side within your businesses?

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

I'm very happy with it. I mean, I was a little concerned as we ended last year where we had lost momentum in sales. We had a kind of pretty so-so third quarter and a poor fourth quarter last year in terms of sales. And I think that teams really redoubled their effort to make sure that we were doing the right promotions with customers, to introduce a couple of strategic good new items and then the advertising, I think, supported it. And so, I mean, we saw really very solid growth across most of our major value-added franchises as we ended the year, high, significant double-digit gains in Grocery and Meat Products and Foodservice and the value-added Jennie-O portfolio. So I'm pretty pleased with it.

Mike Hamilton - RBC Capital Markets - Analyst

Thanks and congratulations.

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

Thank you.



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Operator

Thank you. Our next question is a follow-up from the line of Akshay Jagdale with KeyBanc Capital Markets. Please go ahead.

Akshay Jagdale - KeyBanc Capital Markets - Analyst

Thank you for taking the follow-up. Just wanted to, again, get a little bit more clarification on the pork markets and thank you for your comments on that, Jody. But in your opinion, what is driving the higher cutout margin? Is it export or domestic demand?

Jody Feragen - Hormel Foods Corporation - EVP, CFO

I think it's been a combination of both. We have seen strong export demand. I believe that that's weakening here lately, but the earlier in the year we saw strong export demand, and then we've had great consumer demand for pork in the US and it seems to be clearing. So certainly the freezer stock inventories that came out today show that there is -- we are still down 2% year-over-year.

Akshay Jagdale - KeyBanc Capital Markets - Analyst

So would you agree, if I then said, because corn is where it is and what has happened on the producer side which is they've had two years of losses, that despite demand being strong, supplies are sort of slower to react than it usually is which is why maybe margins have sustained at this higher level? Is that a fair -- would you agree or disagree with that statement?

Jody Feragen - Hormel Foods Corporation - EVP, CFO

Certainly supply. We haven't seen expansion in the hog industry. Anecdotally, I understand that some of the producers are finding it difficult to get the financing that they may need. And some of the larger producers are kind of waiting to see where these grain crops settle in at and to see what their business model will look like before they put anything else on the ground. I am kind of going along with where the USDA sees hogs for 2011 at this point which is basically flat.

Akshay Jagdale - KeyBanc Capital Markets - Analyst

Okay. And then one for Jeff on the turkey side. What are your expectations, supply for next year on the turkey side? We've seen some of the [eggs set] numbers pick up and with a good year probably expect those numbers to continue to move up. What are your expectations on the supply side especially in light of what's going on with grains?

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

I don't have a full read on that. You've identified both the factors that people are [wearing]. I guess the best I can tell you is that we intend to hold the line on production.

Akshay Jagdale - KeyBanc Capital Markets - Analyst

Okay. Great. That's very helpful. Thanks a lot.



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Operator

Thank you. (Operator Instructions) We do have another follow-up from the line of Lindsay Drucker-Mann with Goldman Sachs. Please go ahead.

Lindsay Drucker-Mann - Goldman Sachs - Analyst

Great. Thanks for the follow-up. I just had a question on international. If you could maybe just give us a bit of color as to why you think that division, from a profit growth perspective, has lagged what you think the normalized growth rate might be? And then in addition, if the Chinese initiatives to curb domestic inflation have any bearing on your business there? Thanks.

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

Okay. The difficulty they've had the last couple of years has really been related to the run-up in hog costs and in turn in trim that goes into SPAM. SPAM is a key item internationally. Their sales growth for SPAM has been fantastic and in the long run I am very confident that that building of that franchise is really going to generate some significant profit for that division.

But we have to wait for a little bit more moderate situation and/or their pricing to catch up. They have taken some pricing action and they've announced they are taking further pricing action. They also had benefited from really pretty good margins over the years in their fresh pork business and specialized items, but again that got tight this year with the way the markets are.

We are expecting a gradual improvement in that picture for them and then their momentum in these value-added items can drive the day for them. In terms of China, our China focus is primarily in-country with our two facilities and we really aren't seeing any impact on the business in there.

Lindsay Drucker-Mann - Goldman Sachs - Analyst

Okay. And then just following up, does your expectation that international will have a very, very strong year say anything about your expectation for trim prices next year? Do you think those will be a little bit more moderate?

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

We are thinking they will be a little more moderate but that's not the key driver. That will help. We are expecting better results out of a couple of the partnership interests that we have in the Philippines and in other markets. We are continuing to invest in growing the brand in Japan, and so we think those volume increases will be a driver as well.

Lindsay Drucker-Mann - Goldman Sachs - Analyst

Okay. Thank you.

Operator

Thank you. Our next question is a follow-up from the line of Diane Geissler with CLSA. Please go ahead.

Diane Geissler - CLSA Limited - Analyst

Good morning, thanks for the follow-up.



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Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

Sure.

Diane Geissler - CLSA Limited - Analyst

I may have missed this, what was the advertising spend in Jennie-O Turkey Store this quarter?

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

Oh, what was just the quarter, \$15 million?

Diane Geissler - CLSA Limited - Analyst

\$15 million?

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

Yes, it was 14 -- we'll probably have to get you the exact number but I think it was in the \$14 million to \$15 million range.

Diane Geissler - CLSA Limited - Analyst

Okay, great. Thank you.

Jeff Ettinger - Hormel Foods Corporation - Chairman, President, CEO

Yes.

Operator

Thank you. And there are no further questions at this time. Please continue with any closing remarks.

Kevin Jones - Hormel Foods Corporation - Director, IR

Very good. Thank you all for joining us. Have a great Thanksgiving.

Operator

And, ladies and gentlemen, this concludes our conference for today. Thank you for your participation. You may now disconnect.



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